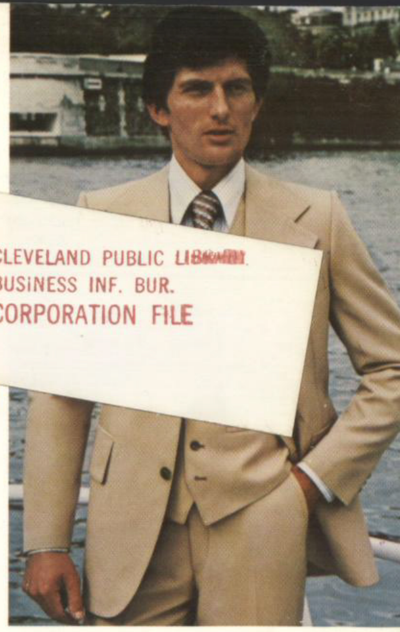
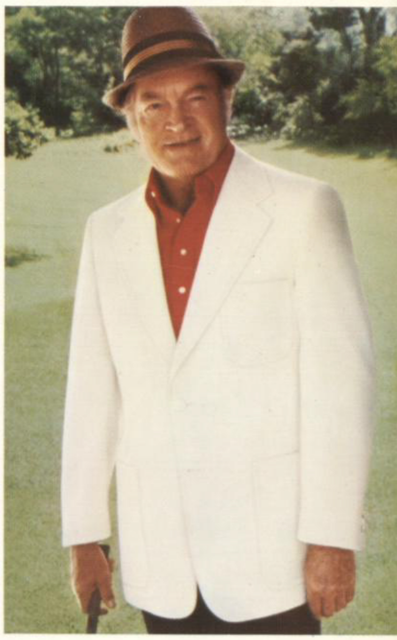




Hart Schaffner & Marx

MANUFACTURING AND RETAILING QUALITY APPAREL

1975 ANNUAL REPORT ®

HART SCHAFFNER & MARX® **ANNUAL REPORT FOR 1975**

BOARD OF DIRECTORS

John D. Gray, *Chairman, Hart Schaffner & Marx*

Jerome S. Gore, *President, Hart Schaffner & Marx*

A. Robert Abboud, *Chairman of the Board of First Chicago Corporation and of The First National Bank of Chicago*

Lee S. Bickmore, *Chairman, Executive Committee, Nabisco, Inc.*

James S. Bingay, *President and Chief Executive Officer, The Mutual Life Insurance Company of New York*

Charles L. Brown, *Executive Vice President and Chief Financial Officer, American Telephone and Telegraph Company*

James F. Chambers, Jr., *Chairman of the Board and Chief Executive Officer, The Times Herald Printing Company (Dallas)*

Paul A. Conley, *Financial Consultant; retired Chairman of the Board, Blyth Eastman Dillon & Co. Incorporated*

Arthur Gunzberg, *Chairman, M. Wile & Company, Inc.*

Walter B. D. Hickey, Sr., *President, Hickey-Freeman Co., Inc.*

John R. Meinert, *Executive Vice President, Hart Schaffner & Marx*

Burton B. Ruby, *President, Jaymar-Ruby, Inc.*

Elmer Schlesinger, *Investor*

Clay E. Steele, *Retired (formerly Senior Vice President, Hart Schaffner & Marx)*

Robert J. Witt, *Executive Vice President, Hart Schaffner & Marx*

HONORARY DIRECTORS

Walter M. Heymann, *Retired (formerly Vice Chairman, The First National Bank of Chicago)*

J. M. Ruby, *Chairman, Jaymar-Ruby, Inc.*

Administrative Officers

John R. Meinert, *Executive Vice President*
William B. Snow, *Vice President and Treasurer*
Charles L. Stewart, *Vice President, Secretary and General Counsel*
Edward R. Weed, *Vice President*
H. John Yopp, *Vice President*
Jerome Dorf, *Controller*
Roger H. Clausen, *Assistant Controller*
Kay C. Nalbach, *Assistant Secretary*

Hart Schaffner & Marx corporate office
36 South Franklin Street,
Chicago, Ill. 60606

New York City sales offices
1290 Avenue of the Americas,
New York, N. Y. 10019

HIGHLIGHTS

	Years ended November 30 **1975**	1974
Net sales	**$486,833,000**	$494,937,000
Net earnings	**8,310,000**	11,755,000
Average number of common shares and common share equivalents	**8,558,000**	8,637,000
Earnings per share	**.97**	1.36
Cash dividends per common share	**.60**	.88
Shareholders' equity	**171,062,000**	168,142,000
Equity per share	**20.00**	19.58

	1975	1974
Employees	**19,500**	20,500
Shareholders	**8,700**	8,200
Retail stores in the U.S.	**249**	252

QUARTERLY FINANCIAL AND COMMON SHARE INFORMATION

	Net Sales (000's Omitted)		Net Earnings (000's Omitted)		Net Earnings Per Share		Cash Dividends Per Share	
	1975	1974	**1975**	1974	**1975**	1974	**1975**	1974
First	**$128,039**	$130,292	**$2,580**	$ 4,075	**$.30**	$ .47	**$.15**	$.22
Second	**115,604**	116,610	**1,707**	2,943	**.20**	.34	**.15**	.22
Third	**112,161**	115,753	**1,368**	2,319	**.16**	.27	**.15**	.22
Fourth	**131,029**	132,282	**2,655**	2,418	**.31**	.28	**.15**	.22
Total	**$486,833**	$494,937	**$8,310**	$11,755	**$.97**	$1.36	**$.60**	$.88

Hart Schaffner & Marx common shares are traded under the symbol HSM on the New York and Midwest Stock Exchanges. The closing price on February 18, 1976 per common share was $12 and the quarterly price range for the past two years was:

	Fiscal 1975				Fiscal 1974			
	Fourth	**Third**	**Second**	**First**	Fourth	Third	Second	First
High	**$9¼**	**$10⅛**	**$9¼**	**$7**	$8¼	$10¾	$14¼	$13⅜
Low	**8**	**8⅛**	**6⅞**	**4⅞**	6⅝	7⅜	9¾	9¾

Series A cumulative preferred shares, on which quarterly $.50 cash dividends were paid in 1975 and 1974, while not separately traded, are each convertible into 1.8 common shares.

Transfer Agents:
The First National Bank of Chicago
Chicago, Illinois 60690
Bankers Trust Company
New York, New York 10015

Registrars:
Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois 60690
Chemical Bank
New York, New York 10015

TO OUR SHAREHOLDERS

Results and Outlook

The economy is improving, consumer confidence is returning, and we are looking forward to an improvement in our sales and earnings for 1976. When we reported to you a year ago, the apparel industry was seriously affected by the recession which continued during most of 1975. Excessive inventories in the industry had to be liquidated. This was quite costly in terms of depressed prices and markdowns during the last half of 1974 and the first half of 1975.

Sales were $486,833,000 for fiscal 1975 compared with $494,937,000 in 1974, a decrease of 1.6 percent. Earnings were $8,310,000 or $.97 per share in fiscal 1975, a decrease of 29 percent from $11,755,000 or $1.36 per share in 1974. Sales were sluggish while inflationary costs reduced profit margins. Under the depressed pricing conditions, it was not possible to offset rising labor, bad debts, utility and other costs.

Retail business began to improve in the fourth quarter of 1975. With higher sales in our stores and lower interest expense, earnings increased approximately 10 percent compared with the fourth quarter of 1974. The economy continues to recover. Sales in our retail stores for December 1975 and January 1976, the first two months of the new fiscal year, increased 10 percent to a new record high.

Retailers are much more optimistic, and they are placing orders for future delivery with confidence. All of our manufacturing divisions are receiving significant increases in orders for fall 1976. Last year, orders were reduced for fall 1975 and spring 1976 shipments as retailers cut merchandise inventories. Retailers' inventories are now low.

The Company's inventories were $25.5 million less at November 30, 1975 than the year before. This reduction resulted from the liquidation of excess goods and lower manufacturing volume. Inventory turnover has improved with a higher ratio of sales to inventory in the manufacturing and the retail stores divisions.

Your Company has the strength and the determination to take advantage of the opportunities for growth in the years ahead. It is in a strong financial position. Its ratios of current assets to current liabilities, and equity to long-term debt are excellent. During fiscal 1975, all $21

million short-term loans were repaid and borrowing under a long-term bank credit agreement was reduced from $35 million to $21 million. The remaining $21 million was repaid in December, 1975 and no bank loans are outstanding at this time. The Company has the option of reborrowing up to the $35 million under the bank credit agreement and may also use lines of credit for its short-term needs.

Return on Investment

We are not satisfied with the Company's earnings even though the decline was attributable to unfavorable economic conditions. Shareholders' equity has grown to $20 per share, and we are determined to improve the return on that equity. Goals to accomplish this objective have been established throughout the Company. We are planning ways to increase the productivity and profitability of each manufacturing and retailing operation. The manufacturing divisions are being studied with a view to improving their efficiency and productivity with new methods and engineering technology. Automatic equipment is being installed wherever appropriate in our manufacturing and warehousing operations, including computerized cloth-cutting systems. Many store locations are being renovated and remodeled to increase their volume and earnings. Contemporary shops are being opened in existing stores to sell apparel appealing to the important younger market. A determined effort is being made to broaden the product base in our stores to make them more productive and hence to improve the return on investment.

Retail Stores Division

Your Company owns and operates 249 of the finest men's and women's specialty stores in the world. They are located in 65 U.S. metropolitan areas. The Company plans to open approximately 10 stores in 1976. The Company also owns a majority interest in Robert's, the quality manufacturer-retailer of men's clothing with 14 outstanding stores in Mexico. Robert's has had great success and we are proud of its continued progress. Sales of the Retail Stores Division were over $310 million in 1975, approximately equal to 1974. During 1975, four stores were opened and seven were sold or closed. Population trends indicate that most growth will occur in established areas which are already served by shopping centers. As population increases around our existing stores, sales will grow and greater productivity and profits will result. This will improve inventory turnover and return on investment.

The Company operates 20 women's specialty stores, and more than one-half of our 229 men's stores have women's departments. Sales of women's apparel, including leased departments, exceeded $80 million in 1975. Additional women's departments are being opened in our existing men's stores.

Each of our retail subsidiaries (listed on pages 14 and 15) operates as an individual profit center under its own company name and enjoys an outstanding reputation in its area. Local management is guided by overall policy as determined by the Retail Stores Division management. Among the indicators for continued growth and profitability of the Retail Stores Division are the high degree of consumer interest in quality fashion apparel, especially sportswear, and the dramatic resurgence in the demand for men's tailored clothing, particularly by younger customers. An increased number of customers are being attracted to our stores because of the personal attention and superior service we are prepared to render.

Manufacturing Divisions

Our manufacturing divisions are capitalizing on the above trends, offering high quality, fashionable tailored clothing and sportswear at the important price points. Details of the various divisions and brands are featured on page 16.

Hart Schaffner & Marx Clothes is the largest and most prominent of our manufacturing divisions. It markets apparel under the famous brand names of Hart Schaffner & Marx, Society Brand, Ltd., Austin Reed of Regent Street, Graham & Gunn, Ltd., Sterling & Hunt and Fashionaire, a leader in the career apparel field.

The Hart Schaffner & Marx name, by far the most famous name in men's clothing, has further enhanced its prestige with the addition of the Christian Dior designer line and Jack Nicklaus suits, sport coats and slacks.

Austin Reed of Regent Street is a medium-priced line of clothing that has had wide acceptance because of the great interest in the British

look and styling.

Hickey-Freeman is recognized as the manufacturer of the finest quality men's tailored clothing in the world. Its products, under the Hickey-Freeman and Walter-Morton labels, are sold in outstanding men's specialty stores featuring the highest quality apparel, and in the most exclusive department stores. Hickey-Freeman produces a broad line of suits, outer coats, sport coats and slacks appealing to discriminating men of all ages. A feature of the fall 1976 presentation is an advanced fashion Limited Edition collection for Hickey-Freeman, and the Legacy Group for Walter-Morton.

M. Wile has had dramatic growth. The Johnny Carson Apparel line, which has been eminently successful, has wide distribution and continues to grow. Introduced in fall 1975, the Nino Cerruti Rue Royale collection of European designed tailored clothing has had remarkable acceptance. It has sold extremely well at retail and is being reordered in substantial quantities. Both the Carson and Cerruti lines are moderately priced and appeal to the younger fashion-conscious man. Leisure suits, introduced by M. Wile for spring 1976, were an immediate success and are continuing to sell in volume both at the manufacturing and retail levels. A contemporary line of sportswear designed by Nino Cerruti has been introduced for the fall 1976 season. The Don Richards line supplements the other branded products marketed by this division which also sells clothing under private store labels.

Jaymar-Ruby achieved record sales in 1975. Its sportswear line of leisure suits, sport shirts, sweaters and sport coats is being broadly distributed and has great growth potential. Jaymar is the outstanding manufacturer of quality men's slacks in the United States. It has a wide range of fabrics and designs. Its most famous feature is the broad line of exclusive Sansabelt slacks. Other Jaymar-Ruby specialties are the Cary Middlecoff coordinates and the Silver/Gulfstream PG's Sportswear collection.

The Gleneagles raincoat program has been further enhanced by the addition of a Christian Dior line of raincoats. Enthusiastically received by retailers for the spring of 1976, its popularity is anticipated to increase in the future. A line of Christian Dior sportswear has been designed and is being presented to retailers for the fall 1976 season. Gleneagles introduced sportswear and leisure suits in 1975 featuring the Jack Nicklaus and Johnny Carson names. Both programs met with immediate success, which partially offset the effect of the recession on the raincoat and weatherwear business.

The Blue Jeans Corporation produces a line of women's and junior's sportswear featuring denim. Blue Jeans is a major supplier to chain stores and other major retailers. It has established a branded women's sportswear line under the Hallsboro label. The line is being featured by department and specialty stores throughout the country. This type of denim sportswear is in great demand and the prospects for this division in 1976 and for future years are excellent.

Licensing

The strength of your Company's brand names has made it possible to embark on an international licensing operation. We have developed an extensive program with Marubeni Corporation, a prominent Japanese trading company. These licensing agreements include Jack Nicklaus, Sterling & Hunt, Graham & Gunn, Ltd., and Society Brand, Ltd., all under the auspices of Hart Schaffner & Marx. This licensing arrangement is providing important revenue for your Company which should continue to grow in the years to come. The Company also represents Jack Nicklaus and Johnny Carson in international licensing of men's apparel. The Johnny Carson name, for suits, sport coats, shirts and neckwear, and the Hickey-Freeman brand also have been licensed in other countries.

Personnel

The executive officers of our retail stores and our manufacturing divisions are listed in the last section of this report. They are supported in depth by other officers, managers, buyers, specialists, engineers and many other management employees who make a significant contribution to your Company. Over the years the Company has created this important asset of human resources by its policy of developing personnel from within the organization to the fullest extent possible. In addition, we have been fortunate in hiring qualified people who have

already gained experience in successful business careers. This infusion of new talent and ideas is a valuable supplement to the management developed within the Company. The results are strong merchandising and administrative teams both in our retail stores and our manufacturing divisions. Many of our corporate and divisional executives have spent the major part of their careers with the Company. Anticipating our future management needs, Hart Schaffner & Marx presently employs hundreds of college graduates who joined the Company during the last 10 years.

We regret that Clay E. Steele, a director since 1946, has chosen to retire from your board of directors when his term expires in April 1976. He joined the Company in 1919 and was senior vice president at his retirement in 1961. Mr. Steele was instrumental in bringing into the organization many employees who became officers in the Company, including the present chairman and president. His work and counsel have been of inestimable worth, and he will continue his interest in the Company as an honorary director.

Harry L. Wells, vice president emeritus of Northwestern University, passed away on February 10, 1976. Mr. Wells served as a director of Hart Schaffner & Marx for 25 years until 1973 and for the past three years, was an honorary director. He made a valuable contribution to the Company. We are saddened by the death of this close associate and warm friend.

As announced in October, Jerome S. Gore, president of the Company since 1970, became chief executive officer on January 1, 1976. John D. Gray, formerly chief executive officer, will continue to participate actively in the management of the Company as its chairman. We will continue to work closely together as we have for the past 30 years.

The eminent position of Hart Schaffner & Marx in the apparel industry can be attributed to the quality of its products and services. This is the direct result of our employees' dedication in all their efforts for the Company. The officers and directors of Hart Schaffner & Marx join us in expressing our awareness and appreciation of their commitment.

Very truly yours,

John D. Gray
Chairman

Jerome S. Gore
President

February 18, 1976

HART
SCHAFFNER
& MARX ®

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Consolidated Statement of Earnings

	Years ended November 30 1975	1974
	(000's omitted)	
Net Sales	**$486,833**	$494,937
Other income	**5,184**	5,296
	492,017	500,233
Cost of goods sold	**305,720**	310,150
Selling, administrative and occupancy expenses	**163,363**	159,958
Interest	**6,614**	6,979
	475,697	477,087
Earnings before taxes	**16,320**	23,146
Taxes on earnings	**8,010**	11,391
Net earnings for the year	**$ 8,310**	$ 11,755
Net earnings per common share and common share equivalent	**$ .97**	$ 1.36
Average number of common shares and common share equivalents	**8,558**	8,637

Consolidated Statement of Retained Earnings

	1975	1974
Retained earnings at beginning of year	**$126,212**	$122,087
Net earnings for the year	**8,310**	11,755
Cash dividends paid:		
Preferred shares, $2.00 per share	**(164)**	(164)
Common shares, $.60 per share in 1975 and $.88 per share in 1974	**(5,044)**	(7,466)
Retained earnings at end of year	**$129,314**	$126,212

(See accompanying notes to consolidated financial statements)

CONSOLIDATED BALANCE SHEET

	November 30 1975	1974
	(000's omitted)	
Assets		
CURRENT ASSETS		
Cash and short term investments	**$ 14,330**	$ 8,159
Accounts receivable, less allowance of $4,290,000 and $3,442,000 for doubtful accounts	**87,649**	95,912
Inventories	**126,637**	152,179
Prepaid expenses	**2,243**	2,874
Accumulated income tax prepayments	**—**	2,280
Total current assets	**230,859**	261,404
OTHER ASSETS	**4,352**	4,807
PROPERTIES		
Land	**1,317**	1,278
Buildings and building equipment	**12,207**	12,048
Furniture, fixtures and equipment	**64,385**	62,361
Leasehold improvements	**46,971**	46,295
	124,880	121,982
Accumulated depreciation and amortization	**(71,292)**	(65,044)
Net properties	**53,588**	56,938
	$288,799	$323,149
Liabilities and Shareholders' Equity		
CURRENT LIABILITIES		
Notes payable to banks	**$ —**	$ 21,000
Current maturities of long term debt	**1,048**	739
Accounts payable and accrued expenses	**52,791**	56,807
Taxes on earnings	**642**	1,116
Deferred taxes on earnings	**2,120**	—
Total current liabilities	**56,601**	79,662
LONG TERM DEBT, less current maturities		
8½% sinking fund debentures with annual retirements of $1,750,000 beginning in 1978	**35,000**	35,000
Notes payable to banks under credit agreement	**21,000**	35,000
Other debt, extending to 1985	**5,136**	5,345
	61,136	75,345
SHAREHOLDERS' EQUITY		
Convertible preferred shares, $1 par value; authorized 2,500,000; issued and outstanding, Series A, 82,230	**82**	82
Common shares, $2.50 par value; authorized 25,000,000; issued 8,676,395	**21,691**	21,691
Capital surplus	**23,544**	23,544
Retained earnings	**129,314**	126,212
	174,631	171,529
Common shares in treasury, at cost, 269,158 in 1975 and 236,950 in 1974	**(3,569)**	(3,387)
	171,062	168,142
	$288,799	$323,149

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years ended November 30 1975	1974
	(000's omitted)	
Working capital was provided by:		
Net earnings for the year	**$ 8,310**	$ 11,755
Depreciation and amortization	**7,718**	7,710
Other charges and credits—net	**455**	28
Working capital provided by operations	**16,483**	19,493
Borrowings under bank credit agreement	**—**	35,000
	16,483	54,493
Working capital was used for:		
Reduction of long term debt	**14,209**	15,685
Payment of dividends	**5,208**	7,630
Property additions—net	**4,368**	6,942
Purchase of treasury shares	**182**	1,154
	23,967	31,411
Increase (Decrease) in working capital	**$ (7,484)**	$ 23,082
Changes in components of working capital:		
Cash and short term investments	**$ 6,171**	$ 4,894
Accounts receivable	**(8,263)**	7,442
Inventories	**(25,542)**	10,624
Prepaid expenses	**(631)**	(100)
Accumulated income tax prepayments	**(2,280)**	95
Notes payable to banks	**21,000**	(6,200)
Current maturities of long term debt	**(309)**	67
Accounts payable and accrued expenses	**4,016**	3,454
Taxes on earnings	**474**	2,806
Deferred taxes on earnings	**(2,120)**	—
Increase (Decrease) in working capital	**$ (7,484)**	$ 23,082

(See accompanying notes to consolidated financial statements)

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of Hart Schaffner & Marx:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, retained earnings and changes in financial position present fairly the financial position of Hart Schaffner & Marx and its subsidiaries at November 30, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Chicago, Illinois,
January 14, 1976

Price Waterhouse & Co.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
November 30, 1975 and 1974

Summary of accounting policies–The consolidated financial statements include the accounts of the Company and all subsidiaries.

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method for the majority of the inventory, although for a substantial amount, the last-in, first-out (LIFO) method is used.

Properties are stated at cost. Additions, major renewals and betterments are capitalized; maintenance and repairs which do not extend the asset's life are charged against earnings. Profit or loss on dispositions of assets is reflected in earnings and the related asset costs and accumulated depreciation are removed from the respective accounts except for certain assets for which the composite method of computing depreciation is used under which no gain or loss is recognized on disposition.

Accelerated depreciation methods are used for a significant portion of the properties and the straight line method is used for the remainder. Depreciation is computed based on useful lives of 20 to 45 years for buildings, 5 to 20 years for building equipment and 3 to 15 years for furniture, fixtures and equipment. Amortization of leasehold improvements is based upon the terms of the respective leases.

Deferred taxes on earnings are provided for timing differences between financial and taxable income. Investment tax credits, which have not been material, are recognized in the year the related assets are placed in service by reducing the current provision for taxes on earnings.

The Company and its subsidiaries maintain pension plans covering substantially all employees other than those covered by union-sponsored plans. Pension expense charged against earnings includes current service costs and, as to plans not fully funded, amortization of prior service costs over periods ranging from ten to thirty years. Pension costs are funded as accrued and the amounts funded at November 30, 1975 exceeded the actuarially computed total of vested benefits.

Earnings per share are computed based on the average number of common shares and common share equivalents outstanding. Convertible preferred shares have been included as common share equivalents. Stock options were not dilutive.

Leases–At November 30, 1975, the Company and its subsidiaries were committed under noncancelable leases, covering primarily retail properties, which require total minimum annual rentals and rentals applicable to financing leases, as defined by the Securities and Exchange Commission as follows (000's omitted):

Years	Noncapitalized financing leases	All leases
1976	$1,725	$11,687
1977	1,688	11,255
1978	1,688	10,586
1979	1,716	10,017
1980	1,700	9,429
1981-1985	8,906	40,042
1986-1990	8,652	23,993
1991-1995	5,961	8,658
Thereafter	2,833	2,833

Over 90 percent of all leases provide for the payment by the lessors of all or most of the applicable real estate taxes, maintenance and insurance costs, which are substantial in proportion to the minimum rentals. Minimum rental income from noncancelable subleases offset against the above total rentals is $562,000 in 1976 and progressively less in subsequent years.

Rental expense, including rentals under short-term leases, comprises the following:

	1975	1974
	(000's omitted)	
Noncapitalized financing leases:		
Minimum rentals	**$ 2,280**	$ 2,229
Contingent rentals	**501**	523
Sublease (income)	**(596)**	(547)
Other leases:		
Minimum rentals	**12,353**	11,483
Contingent rentals	**3,089**	2,820
Sublease (income)	**(285)**	(233)
Total rental expense	**$17,342**	$16,275

Almost one-half of the leases contain renewal options ranging from 5 to 25 years; several leased facilities may be purchased at various dates at an aggregate cost of $5,500,000. Contingent rental payments are generally based on the sales volume of the rental unit.

The present value of the noncapitalized financing lease commitments was $15,300,000 at November 30, 1975 and $15,600,000 at November 30, 1974, net of the related sublease income of $1,300,000 and $1,400,000, respectively. The weighted average of interest rates used to compute present values was 6.65 and 6.56 percent in 1975 and 1974, respectively. The range of interest rates was 3.5 percent to 8.5 percent in both 1975 and 1974.

Had the rental properties been capitalized and amortized on a straight line basis and interest accrued on the basis of the outstanding lease commitments, the impact on net earnings in 1975 and in 1974 would have been approximately one percent.

Pension Plans—The Company's principal plan requires contributions by the employees and one other pension plan permits voluntary employee contributions. Except for several deferred profit sharing plans of subsidiaries, all employer's contributions are based on actuarial determinations.

Total pension costs for the years ended November 30, 1975 and 1974 were $2,654,000 and $2,367,000, respectively, which excludes contributions by the Company and its subsidiaries to union-sponsored plans. Unfunded past service cost at November 30, 1975 was approximately $2,048,000. Provisions of the Pension Reform Act of 1974, which will become fully effective in 1976, have required the Company to amend certain of its pension plans; however, the Company does not expect any material change in consolidated pension costs as a result of these amendments.

Taxes on Earnings—The provision for taxes on earnings is summarized as follows:

	1975	1974
	(000's omitted)	
Current		
Federal	**$ 2,490**	$ 9,287
State and other	**420**	1,611
Foreign	**700**	588
Total current	**3,610**	11,486
Deferred		
Federal	**3,800**	(90)
State and other	**600**	(5)
Total deferred	**4,400**	(95)
	$ 8,010	$11,391

The 1975 deferred tax provision of $4,400,000 created a $2,120,000 deferred tax liability at November 30, 1975 and eliminated the 1974 tax prepayment of $2,280,000. The 1975 deferred tax provision is primarily comprised of $2,800,000 deductible gross margin on intercompany inventory and $1,300,000 from deferment of gross margin on installment sales.

The effective tax rate was 49.1% in 1975 and 49.2% in 1974. The differences between total taxes on earnings reflected in the accompanying statement of earnings and the amount computed by applying the federal statutory tax rate to pre-tax earnings is summarized as follows:

	Percent of pre-tax earnings	
	1975	1974
Taxes computed at statutory rate	**48.0%**	48.0%
State and other taxes on earnings net of federal tax benefit	**3.3**	3.6
Investment tax credit	**(1.8)**	(2.1)
Other—net	**(.4)**	(.3)
	49.1%	49.2%

Borrowing Arrangements—In 1974, the Company entered into a $35,000,000 bank credit agreement under which $21,000,000 of notes payable were outstanding at November 30, 1975. On or before September 30, 1977, any portion of the $35,000,000 may be converted into term loans payable in 16 equal quarterly installments commencing January 31, 1978. Interest is substantially at the prime commercial rate. In connection with this agreement, the Company has informally agreed to maintain average funds on deposit with the lenders, which at November 30, 1975, would have aggregated approximately $5,000,000, and is largely covered by "float." By December 31, 1975, the remaining $21,000,000 borrowed under this agreement was paid. The Company anticipates that approximately this amount of long-term funds will be borrowed in 1976; accordingly, the debt is classified as long-term.

Under the most restrictive provisions of the Company's several borrowing agreements, senior funded debt is limited to approximately one-half of shareholders' equity; however, no limitation exists on subordinated funded debt. The Company is required to maintain consolidated working capital of $135,000,000 less any unused commitments under the bank credit agreement. Consolidated retained earnings of $26,628,000 at November 30, 1975 are not restricted as to the payment of cash dividends.

Consent Decree—A consent decree entered on June 1, 1970 by the United States District Court requires consent of the Department of Justice, or approval of the Court, to acquire an interest (or assets) in any men's clothing store prior to June 1, 1980. The last divestiture requirements of the decree were satisfied in 1974.

Convertible Preferred Shares—The Series A preferred shares are voting shares, are each convertible into 1.8 common shares, are cumulative with an annual $2 dividend rate and are callable at the liquidation price of $67.50 per share (an aggregate of $5,551,000 at November 30, 1975). At November 30, 1975, there were 148,014 common shares reserved for conversion of the preferred shares.

Stock Option Plans—During 1975 the shareholders approved the 1975 Stock Option Plan under which officers and key employees may be granted options to purchase an aggregate of 100,000 shares of common stock over a period of up to ten years at prices equal to the fair market value at date of grant. Options under all plans are exercisable to the extent of 25% each year (cumulative) from the second through the fifth year, and expire five to ten years after date of grant.

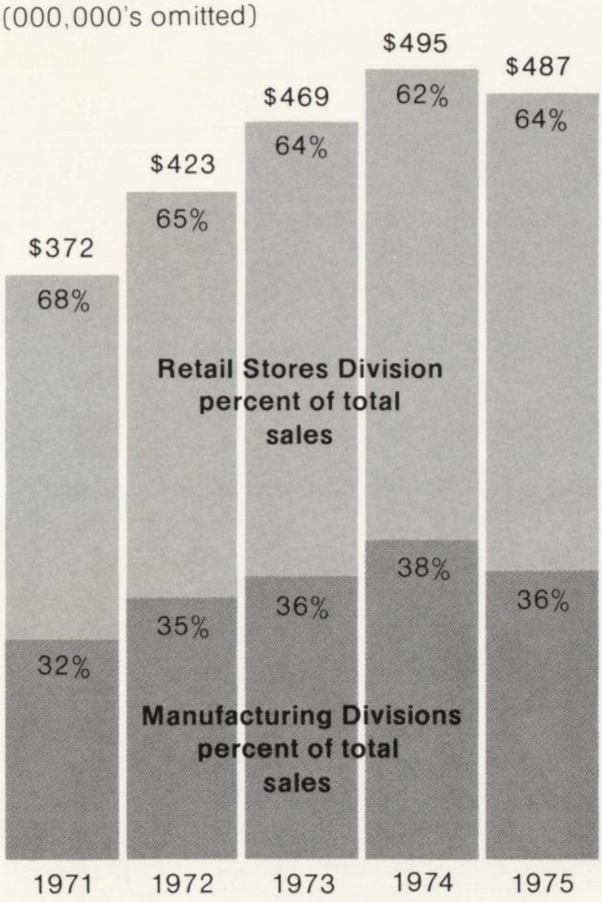
A summary of the plans for the year ended November 30, 1975 is as follows:

	Number of shares under option	Range of option prices per share
Under option, at beginning of period	339,933	$ 7.25 to $33.12
Granted	126,300	6.38 to 9.75
Expired or terminated	(55,238)	10.07 to 33.12
Under option, at end of period	410,995	6.38 to 31.25 (average of $17.76)
Options exercisable at end of period	167,304	
Available for grant:		
Beginning of period	28,727	
End of period	57,664	

HART SCHAFFNER & MARX ®

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED SUMMARY OF OPERATIONS

SALES:
Retail Stores and Manufacturing
(000,000's omitted)



Consolidated sales of the Company grew from $372 million in 1971 to $487 million in 1975. Sales of the Retail Stores Division increased from approximately $250 million in 1971 to over $310 million in 1975, and ranged from 62 to 68 percent of total sales during the past five years. Retail sales of women's apparel have grown from 20 percent of retail volume in 1971 to 25 percent in 1975.

Men's apparel produced by the Manufacturing Divisions comprises 35 to 40 percent of the men's apparel sold by the Company's owned stores. This production represented 22 to 27 percent of the total production of the Manufacturing Divisions during the past five years. Sales to independent accounts which were approximately $120 million in 1971 were over $175 million in 1975. During the past five years these sales ranged between 73 and 78 percent of total manufacturing volume and were 32 to 38 percent of consolidated sales.

Adverse economic conditions resulted in depressed prices, and markdowns were necessary to liquidate excess inventories during the last half of 1974 and the first half of 1975. Sales were sluggish during 1975 while inflationary costs reduced profit margins. Sales for fiscal 1975 decreased 1.6 percent to $486,833,000 from $494,937,000. All the sales decline was in the manufacturing volume. Under the depressed pricing conditions, it was not possible to offset increases in labor, bad debts, utilities and other costs. In addition, expenses increased as a percent to sales partly because retail volume, which necessitates a higher operating expense percentage than manufacturing, increased to 64 from 62 percent of total sales. Earnings decreased 29 percent to $8,310,000 or $.97 per share from $11,755,000 or $1.36 per share. The decrease in interest expense in 1975 occurred in the last half of the fiscal year after excess inventories were liquidated and interest rates were lower.

The remaining $21,000,000 bank borrowings at November 30, 1975 under a long-term bank credit agreement were repaid in December, 1975 and no bank loans are outstanding at this time. In addition, at the end of January, 1976, the Company purchased $2,300,000 of its 8½% sinking fund debentures. These debentures may

be applied toward the sinking fund requirement of $1,750,000 annually beginning in 1978.

Sales increased 5.5 percent in 1974 reaching a new high of $494,937,000 compared to $469,158,000 in 1973. Net earnings were $11,755,000 or $1.36 per share in 1974. This was a decrease of 27 percent from the record high earnings of $16,125,000 or $1.84 per share in 1973. Selling prices increased, reflecting inflationary pressures in the economy which also caused higher operating expenses. Twenty-six men's stores were sold or closed, of which eighteen were sold to complete the last divestiture requirements under the consent decree. Cost of sales increased $23,680,000 or 8.3 percent, including $1,740,000 attributable to adopting the LIFO inventory method for certain manufacturing inventories. Markdowns and operating expenses were higher in both manufacturing and retailing. Interest expense increased $2,106,000 in 1974 due to higher borrowings at higher interest rates.

Form 10-K – Hart Schaffner & Marx will provide without charge, to any shareholder, a copy of its Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (but without exhibits). Written requests should be directed to: Hart Schaffner & Marx, attention: Mrs. Kay C. Nalbach, Assistant Secretary, 36 South Franklin Street, Chicago, Illinois 60606.

HART
SCHAFFNER
& MARX ®

CONSOLIDATED SUMMARY OF OPERATIONS

for the five years ended November 30, 1975
(000's omitted)

	1975	1974	1973	1972	1971
Net sales	**$486,833**	$494,937	$469,158	$423,114	$372,022
Cost of sales	**305,720**	310,150	286,470	259,093	229,054
Interest expense	**6,614**	6,979	4,873	3,996	3,729
Earnings before taxes	**16,320**	23,146	30,422	27,214	19,705
Taxes	**8,010**	11,391	14,297	13,024	9,355
Net earnings	**8,310**	11,755	16,125	14,190	10,350
Earnings per common share and common share equivalent	**.97**	1.36	1.84	1.61	1.18
Cash dividends paid on:					
Preferred shares	**164**	164	164	180	189
per share	**2.00**	2.00	2.00	2.00	2.00
Common shares	**5,044**	7,466	7,414	6,914	6,852
per share	**$.60**	$.88	$.86	$.80	$.80
Average number of common shares and common share equivalents	**8,558**	8,637	8,767	8,805	8,749

RETAIL STORES DIVISION

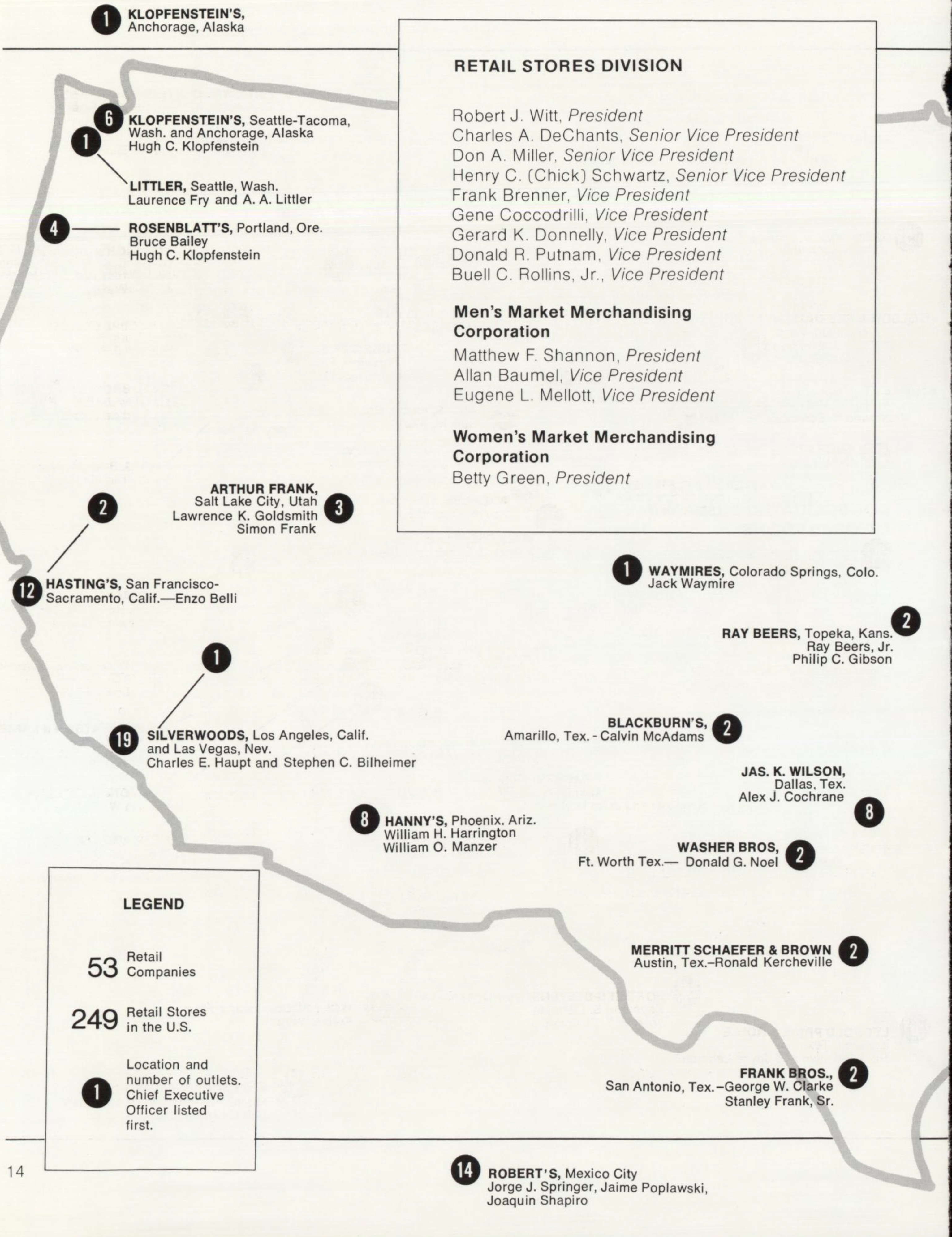
Robert J. Witt, *President*
Charles A. DeChants, *Senior Vice President*
Don A. Miller, *Senior Vice President*
Henry C. (Chick) Schwartz, *Senior Vice President*
Frank Brenner, *Vice President*
Gene Coccodrilli, *Vice President*
Gerard K. Donnelly, *Vice President*
Donald R. Putnam, *Vice President*
Buell C. Rollins, Jr., *Vice President*

Men's Market Merchandising Corporation

Matthew F. Shannon, *President*
Allan Baumel, *Vice President*
Eugene L. Mellott, *Vice President*

Women's Market Merchandising Corporation

Betty Green, *President*

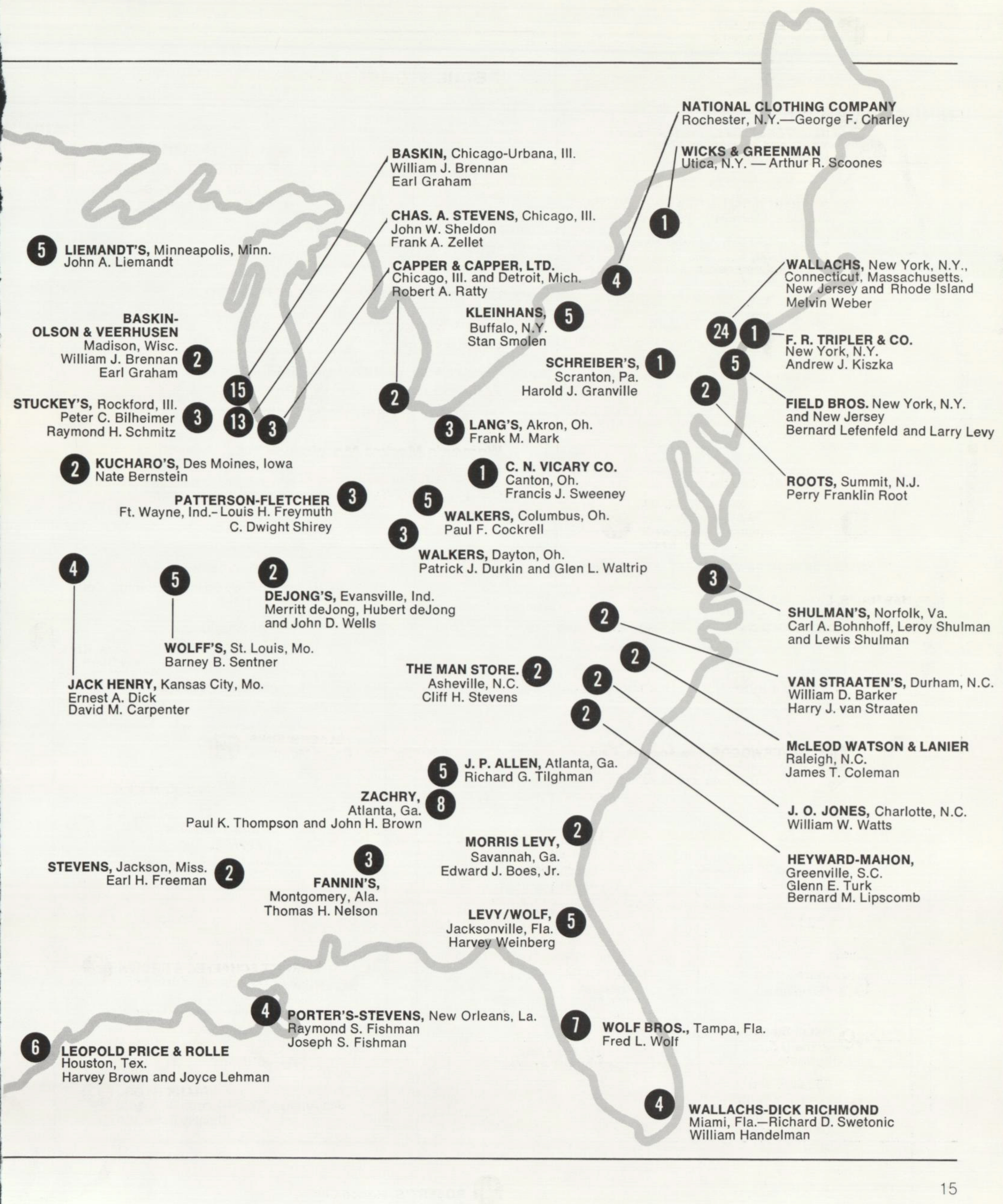


LEGEND

53 Retail Companies

249 Retail Stores in the U.S.

1 Location and number of outlets. Chief Executive Officer listed first.


NATIONAL CLOTHING COMPANY Rochester, N.Y.—George F. Charley
WICKS & GREENMAN Utica, N.Y. — Arthur R. Scoones
1
4
BASKIN, Chicago-Urbana, Ill. William J. Brennan Earl Graham
CHAS. A. STEVENS, Chicago, Ill. John W. Sheldon Frank A. Zellet
5 LIEMANDT'S, Minneapolis, Minn. John A. Liemandt
CAPPER & CAPPER, LTD. Chicago, Ill. and Detroit, Mich. Robert A. Ratty
KLEINHANS, Buffalo, N.Y. Stan Smolen 5
WALLACHS, New York, N.Y., Connecticut, Massachusetts, New Jersey and Rhode Island Melvin Weber
24
1 F. R. TRIPLER & CO. New York, N.Y. Andrew J. Kiszka
5 FIELD BROS. New York, N.Y. and New Jersey Bernard Lefenfeld and Larry Levy
2 ROOTS, Summit, N.J. Perry Franklin Root
BASKIN-OLSON & VEERHUSEN Madison, Wisc. William J. Brennan Earl Graham 2
SCHREIBER'S, Scranton, Pa. Harold J. Granville 1
15
STUCKEY'S, Rockford, Ill. Peter C. Bilheimer Raymond H. Schmitz 3
13
3
2
3 LANG'S, Akron, Oh. Frank M. Mark
2 KUCHARO'S, Des Moines, Iowa Nate Bernstein
1 C. N. VICARY CO. Canton, Oh. Francis J. Sweeney
PATTERSON-FLETCHER Ft. Wayne, Ind.- Louis H. Freymuth C. Dwight Shirey 3
5 WALKERS, Columbus, Oh. Paul F. Cockrell
3 WALKERS, Dayton, Oh. Patrick J. Durkin and Glen L. Waltrip
4 JACK HENRY, Kansas City, Mo. Ernest A. Dick David M. Carpenter
5 WOLFF'S, St. Louis, Mo. Barney B. Sentner
2 DEJONG'S, Evansville, Ind. Merritt deJong, Hubert deJong and John D. Wells
3 SHULMAN'S, Norfolk, Va. Carl A. Bohnhoff, Leroy Shulman and Lewis Shulman
2 VAN STRAATEN'S, Durham, N.C. William D. Barker Harry J. van Straaten
THE MAN STORE. Asheville, N.C. Cliff H. Stevens 2
2 McLEOD WATSON & LANIER Raleigh, N.C. James T. Coleman
2 J. O. JONES, Charlotte, N.C. William W. Watts
2 HEYWARD-MAHON, Greenville, S.C. Glenn E. Turk Bernard M. Lipscomb
5 J. P. ALLEN, Atlanta, Ga. Richard G. Tilghman
ZACHRY, Atlanta, Ga. Paul K. Thompson and John H. Brown 8
MORRIS LEVY, Savannah, Ga. Edward J. Boes, Jr. 2
STEVENS, Jackson, Miss. Earl H. Freeman 2
3 FANNIN'S, Montgomery, Ala. Thomas H. Nelson
LEVY/WOLF, Jacksonville, Fla. Harvey Weinberg 5
4 PORTER'S-STEVENS, New Orleans, La. Raymond S. Fishman Joseph S. Fishman
7 WOLF BROS., Tampa, Fla. Fred L. Wolf
6 LEOPOLD PRICE & ROLLE Houston, Tex. Harvey Brown and Joyce Lehman
4 WALLACHS-DICK RICHMOND Miami, Fla.—Richard D. Swetonic William Handelman

MANUFACTURING DIVISIONS

HART SCHAFFNER & MARX CLOTHES
Suits, sport coats, slacks, and outercoats

36 South Franklin St., Chicago, Ill. 60606
8 Plants: Chicago (3) and Rock Island (2), Ill.;
Rochester, Ind.; and Cape Girardeau and Chaffee, Mo.

William H. Mier, *President*
Thomas J. Flavin, *Group Vice President*
E. O. (Bert) Hand, *Group Vice President*
Robert E. Bruno, *Vice President*
Hugh Gallarneau, *Vice President*
Max A. Hart, *Vice President*
Alfred Katz, *Vice President*
Michael Kent, *Vice President*
Mark J. Lies, *Vice President and Controller*
William R. Loeffler, *Vice President*
Neil A. O'Brien, *Vice President*
William W. Rowlette, *Vice President*
Donald D. Shorr, *Vice President*
Howard Zenner, *Executive Vice President of Society Brand, Ltd.*

HART SCHAFFNER & MARX

JACK NICKLAUS

CHRISTIAN DIOR

SOCIETY BRAND, LTD.

STERLING & HUNT

GRAHAM & GUNN, LTD.

FASHIONAIRE
Men's and women's career apparel

36 South Franklin St.,
Chicago, Ill. 60606

Herbert C. Wallace, Jr.,
Senior Vice President

FASHIONAIRE

AUSTIN REED OF REGENT STREET
Suits, sport coats, slacks, weatherwear and sportswear

36 South Franklin St.,
Chicago, Ill. 60606

Barry A. Reed, *Chairman and President*
Terry I. Kalish, *Vice President*
William A. Flink, *Vice President*

AUSTIN REED OF REGENT STREET

M. WILE & COMPANY, INC.
Suits, sport coats, and leisurewear

2020 Elmwood Ave., Buffalo, N.Y. 14207
3 Plants: Buffalo (2) and Dunkirk, N.Y.

Arthur Gunzberg, *Chairman*
Lawrence Gunzberg, *President*
Kenneth Hoffman, *Executive Vice President*
Guy Gunzberg, *Senior Vice President*
Anthony Caine, *Vice President*
Joseph Diskin, *Vice President*
Harry Feldstein, *Vice President*
Norbert Huber, *Vice President and Secretary*
Ted Levy, *Vice President*
Arthur Matross, *Vice President*
Frank Norton, *Vice President*
George Odvarka, *Vice President*
Fred Pepperday, *Vice President*
Edward Robbins, *Vice President*
William Slitkin, *Vice President*
Joseph Starzec, *Vice President*

NINO CERRUTI

DON RICHARDS

COUNTRY CASUALS

JOHNNY CARSON APPAREL, INC.
Suits, sport coats, weatherwear, leisurewear and furnishings

2020 Elmwood Ave.
Buffalo, N.Y. 14207

Arthur Gunzberg, *Chairman*
Johnny Carson, *President*
Kenneth Hoffman, *Vice President*

JOHNNY CARSON

HICKEY-FREEMAN CO., INC.
Suits, sport coats, slacks outercoats and formalwear

1155 Clinton Ave. North, Rochester, N.Y. 14621
3 Plants: Rochester (2) and Buffalo, N.Y.

Walter B. D. Hickey, Sr., *President*
Walter B. D. Hickey, Jr., *Executive Vice President*
Paul S. Brescia, *Vice President*
Richard B. Lyons, *Vice President*
Morris M. Medved, *Vice President*
Howard A. Breiterman, *Vice President*
Donald B. Parish, *Treasurer*
G. Sheldon Brayer, *Secretary*

HICKEY-FREEMAN

WALTER-MORTON

GILBERT & LODGE

JAYMAR-RUBY, INC.
Slacks, sport coats, coordinated sportswear and leisure suits

5000 South Ohio St., Michigan City, Ind. 46360
9 Plants: Michigan City (4) and East Chicago, Ind.;
Anniston and Russellville, Ala.; Elizabethtown, Ky.; and Rector, Ark.

J. M. Ruby, *Chairman*
Burton B. Ruby, *President*
William E. Staples, *Group Vice President*
Nathan S. Balser, *Vice President*
Jack R. Frank, *Vice President*
Hartley Job, *Vice President*
Al E. Kahan, *Vice President*
Edwin H. Levitin, *Vice President*
Harold Leinwand, *Vice President and Treasurer*
James J. Moore, *Vice President*
Gerald I. Paige, *Vice President*
Robert L. Plummer, *Vice President*
Roger L. Webb, *Vice President*
Gordon Kalil, *Executive Vice President of Silver/Gulfstream, Inc.*
Stephen N. Gray, *Vice President of Silver/Gulfstream, Inc.*
Russell J. Revetta, *Vice President of Silver/Gulfstream, Inc.*

JAYMAR

SANSABELT

CARY MIDDLECOFF

PG's Silver/Gulfstream

GLENEAGLES, INC.
Rainwear, outerwear, sportswear and leisurewear

808 Gleneagles Court, Baltimore, Maryland 21204
3 Plants: Baltimore and BelAir, Md.
Chisholm, Minnesota

Charles R. Lamm, *Chairman*
Lawrence F. Nein, *President*
J. Roger Holland, *Executive Vice President*
James W. McCarten, *Vice President*
Alfred S. Oppenheimer, *Vice President*
Thomas J. Peddicord, *Vice President and Treasurer*
Carl W. Sand, *Vice President and Controller*
James R. Swann, *Vice President*

GLENEAGLES

GREAT WESTERN

Also rainwear, outerwear, sportswear and leisurewear under the labels of Christian Dior, Jack Nicklaus and Johnny Carson.

BLUE JEANS CORPORATION
Jeans and coordinated outfits

130 West 34th St., New York, N.Y. 10001
2 Plants: Whiteville, N.C. and Bethune, S.C.

Stanley Goldberg, *President*
Michael H. Cowan, *Vice President*
Seymour Elkins, *Vice President*
P. Douglas McMillan, *Vice President and Treasurer*
Martin Steinberg, *Vice President*

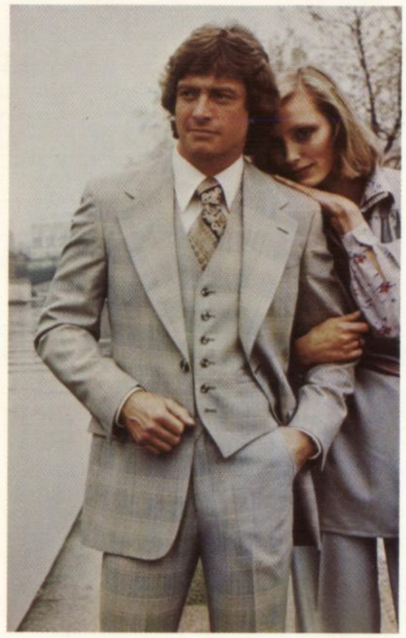
BJC

HALLSBORO

HART SCHAFFNER & MARX ®






Hart Schaffner & Marx has been a part of the American scene for eighty-nine of our country's two hundred years. We are proud to have shared in the nation's growth and to have contributed to the quality of American life.